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STATE OF MONTANA

DEPARTMENT OF HEALTH AND ENVIRONMENTAL SCIENCES

REPORT ON AUDIT

Conducted Under Contract By
Janke and Van Delinder
Certified Public Accountants

Fiscal Year Ended June 30, 1978



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MONTANA
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STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59601
406/449-3122



MORRIS L. BRUSETT
LEGISLATIVE AUDITOR

October 1978

DEPUTY LEGISLATIVE AUDITORS:
JOSEPH J. CALNAN
ADMINISTRATION AND
PROGRAM AUDITS

ELLEN FEAVER
FINANCIAL-COMPLIANCE AND
CONTRACTED AUDITS

STAFF LEGAL COUNSEL
JOHN W. NORTHEY

The Legislative Audit Committee
of the Montana State Legislature:

Transmitted herewith is the report on the audit of the Department
of Health and Environmental Sciences for the year ended June 30, 1978.

The audit was conducted by Janke and Van Delinder, Certified
Public Accountants, under a contract between the firm and our office.
The comments and recommendations contained in this report represent the
views of the firm and not necessarily the Legislative Auditor.

The agency's written response to the report recommendations is
included in the back of the audit report.

Respectfully submitted,

Morris L. Bruset

Morris L. Bruset, C.P.A.
Legislative Auditor

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APPOINTIVE AND ADMINISTRATIVE OFFICIALS
BOARD OF HEALTH AND ENVIRONMENTAL SCIENCES

John W. Bartlett, Chairman	Helena	1981
Leonard W. Eckel	Helena	1981
John F. McGregor, M.D.	Great Falls	1979
John A. Newman, M.D.	Butte	1981
Mrs. Rita Sheehy	Helena	1981
Charles R. Shields	Missoula	1979
William A. Spoja, Jr.	Lewistown	1979

DEPARTMENT OF HEALTH AND ENVIROMENTAL SCIENCES

Arthur C. Knight, M.D., F.C.C.P., Director
Robert A. James, Deputy Director

SUMMARY OF RECOMMENDATIONS

As a separate section in the front of each audit report we include a listing of all recommendations together with a notation as to whether the agency concurs or does not concur with each recommendation. This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply thereto and also as a ready reference to the supporting comments. The full replies of the Department of Health and Environmental Sciences are included in the back of this report.

	<u>Page</u>
The Department should review charges for subdivision reviews and adjust them to prevent further accumulation of excess funds.	5
<u>Agency Reply:</u> Concur and will work toward alignment of fee receipts and necessary program expenditures. See page 22.	
The Department should request that the 1979 Legislature reduce junk vehicle fees to comply with State law.	5
<u>Agency Reply:</u> Information will be given to the 1979 session of the Legislature to apprise them of the current fund balances in the Junk Vehicle Disposal Fund. See page 22.	
The Department should consider centralizing the collection of cash within the Department and reallocate duties to provide better internal control over cash receipts.	6
<u>Agency Reply:</u> Concur that it is desirable but is difficult to do because the Department is situated in seven different buildings in Helena. See page 23.	
Checks should be endorsed immediately upon receipt.	6
<u>Agency Reply:</u> Concur. See page 23.	
Better facilities should be provided for the safekeeping of cash on hand.	6
<u>Agency Reply:</u> Instructions have been provided to collection personnel to insure that all cash receipts are kept in secure, locked enclosures. See page 23.	
The Department should comply with State deposit requirements.	6
<u>Agency Reply:</u> Concur. See page 24.	
The Department should require the family planning agencies with excess funds to utilize them in accordance with federal guidelines.	6
<u>Agency Reply:</u> Concur. See page 24.	

The Department of Health should consult with the Department of Administration to establish a system of general ledger control over its fixed assets.

7

Agency Reply: Concur. See page 24.

The Department of Health should take a complete physical inventory, reconcile its property record, maintain its record on a current basis and delete items which need not be inventoried.

7

Agency Reply: Concur, but it has not been possible because we have not had sufficient personnel to assign to the project. See page 24.

Duties of payroll preparation and distribution should be assigned to different persons.

8

Agency Reply: Concur. See page 25.

Employees should not be allowed to take annual leave until they have completed six months of employment.

8

Agency Reply: Concur. See page 25.

The Department should comply with federal grant management requirements regarding periodic audits.

8

Agency Reply: An internal auditor was recently employed to have primary duties for the audit of operations of delegate or sub-grantee local projects. See page 25.

The Department should classify all collections as revenues unless these amounts represent abatements or recoveries as defined by the Montana Operations Manual.

8

Agency Reply: Disagree. To follow the recommendation where two state agencies are involved would, in effect, result in showing a duplication of revenue and income items and a duplication of state expenditures. See page 25.

Receipts of federal grant monies should be recorded as revenues in the year earned.

9

Agency Reply: Disagree. There is a difference of opinion between state officials and the auditors regarding the recording of revenue and income items. It appears to be preferable to record amounts of income in the year in which they are received. See page 26.

Food drafts should be issued only to properly certified recipients.

9

Agency Reply: Concur. See page 26.

The Department should establish a policy regarding the depreciation calculation which could be included as a direct cost or a factor for determining an indirect cost rate.

9

Agency Reply: Equipment is charged to projects and programs directly at the time of purchase. The cost of depreciation of buildings is entered into the indirect cost rate through expenditure information provided to DHEW. See page 26.

The Department should identify all unused or unneeded assets and transfer them to the Department of Administration.

10

Agency Reply: Concur. See page 27.

The Department should prepare written amendments to agreements or contracts.

10

Agency Reply: Concur. See page 27.

The Department should use SBAS to the maximum extent possible to simplify and minimize grant accounting.

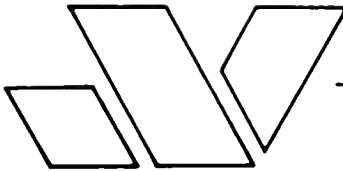
10

Agency Reply: Concur. See page 27.

Copies of all leases should be retained by Department's Central Service Division.

11

Agency Reply: Copies of all lease agreements which are in effect are maintained in the Central Services file. See page 28.



JAMES N. JANKE, CPA
DALLAS W. VAN DELINDER, CPA
DARRELL E. EHRLICK, CPA

Legislative Audit Committee
of the Montana State Legislature

We have examined the balance sheets of the General, Earmarked Revenue, Federal and Private Revenue, Federal and Private Grant Clearance, and Bond Proceeds and Insurance Clearance Funds of the Department of Health and Environmental Sciences as of June 30, 1978 and the related statements of revenues and expenditures and of changes in fund balance for the year then ended. We have also examined the statement of general fixed assets as of June 30, 1978. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Our tests of fixed assets revealed that property disposed of is not always removed from the records; a complete physical inventory of property has not been taken for years; some items have no cost assigned to them; and several pieces of equipment, selected at random from the records, could not be located. The amounts by which the financial statements would change if fixed assets were properly accounted for cannot practicably be determined. Because of the matters described in this paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the statement of general fixed assets.

During the year ended June 30, 1978 the Department recognized as revenues in the Federal and Private Revenue Fund amounts received as reimbursements of federal grant expenditures made in the prior year. Generally accepted accounting principles require that revenues be recognized when they are susceptible to accrual; accordingly the aforementioned amounts should have been included in revenues for the year ended June 30, 1977. It was impractical to determine the amount by which revenues for the year ended June 30, 1978 would have decreased if the reimbursements had been recognized in the proper accounting period.

In our opinion, except for the inclusion of the reimbursement of federal grant expenditures in revenues for the year ended June 30, 1978 as mentioned in the preceding paragraph, the financial statements, excluding the statement of general fixed assets, present fairly the financial position of the Department of Health and Environmental Sciences at June 30, 1978, and the results of operations and changes in financial position for the year then ended in conformity with

Legislative Audit Committee
of the Montana State Legislature
Page 2.

generally accepted accounting principles applied on a basis consistent with that of the preceding year.

September 8, 1978

Janke & Vandewater

C O M M E N T S

General

Montana's first public health agency, the State Board of Health, was created in 1901 by the 7th Legislative Assembly (Board of Health, 1951; p. 1). With a total appropriation of \$2,000, the Board's first mission was to combat the serious and prevalent diseases of the era: Rocky Mountain spotted fever, smallpox, typhoid, diphtheria, and tuberculosis.

Throughout its first fifty years, the Board's legal and administrative responsibilities expanded with the development of the Bureau of Vital Statistics and the Dental, Tuberculosis, Maternal and Child Health, Public Health Nursing, and Health Education Divisions.

In 1967, the legislature established the distinction between the Department of Health and the Board of Health (Sec. 69-4101, RCM, 1947).

Throughout the 1950's the Department continued to expand its role with the added responsibility of administering programs for environmental protection. In 1970, the Montana Commission on Executive Reorganization recommended that all such programs be brought together under a new Environmental Sciences Division (Executive Reorganization, 1970; p. 124). This change was reflected in the Executive Reorganization Act of 1971. At the same time, several advisory councils were abolished, and the names of both the department and board were expanded to include "Environmental Sciences" to reflect the importance these functions have assumed in relation to traditional public health activities (Sec. 82A-601 to Sec. 82A-605, RCM, 1947).

The Department is charged with the following responsibilities:

1. Study conditions affecting the citizens of the State by making use of birth, death, and sickness records;
2. Make investigations, disseminate information, and make recommendations for control of diseases and improvement of public health to persons, groups, or the public;
3. At the request of the Governor, administer any federal health program for which responsibilities are delegated to states;
4. Inspect and work in conjunction with custodial institutions and Montana University system units...;
5. ...submit a written report on sanitary conditions to the Governor...and include recommendations for improvement...;
6. Advise state agencies on location, drainage, water supply, disposal of excreta, heating, plumbing, sewer systems, and ventilation of public buildings;
7. Organize laboratory services and provide equipment and personnel for

those services;

8. Develop and administer activities for the protection and improvement of dental health...;
9. Develop and administer a program to protect the health of mothers and children;
10. Conduct health education programs;
11. Supervise school and local public health nurses...;
12. Consult with the Supertintendent of Public Instruction...;
13. Develop and administer a program for services to handicapped children...;
14. Supervise local boards of health;
15. Bring actions in court for the enforcement for the health laws;
16. Accept and expend federal funds...;
17. Have the power to use personnel of local departments of health to assist in the administration of laws relating to public health (Sec. 69-4110, RCM, 1947).

General functions of the Board of Health and Environmental Sciences are to:

1. Advise the Department in public health matters.
2. Hold hearings, administer oaths, subpoena witnesses, and take testimony in matters relating to the duties of the Board (Sec. 69-4106m RCM, 1947).

Most of the activities of the Board are related to environmental matters. For instance, under the Clean Air Act, the Board is required to establish air quality standards; adopt, amend, and repeal rules; issue orders, and hold hearings relating to any aspect of this act (Sec. 69-3909, RCM, 1947). The Board also has the responsibility for general supervision over all state waters which are used as a public water supply; and the power to adopt rules, standards and issue orders to prevent pollution (Sec. 69-4903, RCM, 1947).

The Board has specific responsibilities in relation to occupational health (Title 69, Chapter 42), mattresses (Title 69, Chapter 47), radiation (Title 69, Chapter 38, RCM, 1947), and almost all other areas involving public health and safety.

The Board consists of seven members who are appointed by the Governor. At least two members must have "professional qualifications in human health service licensed by a board within a department of professional and occupational licenses." The 1977 Legislature required that a third member must be a doctor of veterinary medicine licensed in this state who is engaged in food animal medicine. "The other members not holding such qualifications, shall have demonstrated intelligent and active interest in the field of public health" (Sec. 82A-605, RCM, 1947).

The Board is designated as a quasi-judicial board which requires that,..."at least one (1) member shall be an attorney licensed to practice law in this state" (Sec. 82A-112, RCM, 1947).

Earmarked Revenue Accounts - Excess Cash Balances

The Department is authorized by Title 69, Chapter 50, RCM, 1947, to review sanitation measures in subdivisions and to charge a fee for this service not to exceed a maximum fee set by statute. The Department currently charges the maximum fee allowable without making a determination of the cost of this service. Revenues exceeded costs by approximately \$115,000 for the year ended June 30, 1978.

At current fiscal year end, the junk vehicles fee account had a cash balance of \$1,500,000. This represents a reserve equal to approximately two years' operating expenditures. Although fees have been reduced or eliminated by the 1975 Legislature, the cash balance increased by more than \$50,000 during the year ended June 30, 1978. Section 69-6807(3), RCM, 1947, requires the Department to report to the Legislature amounts collected and program costs so that adjustment of the fees be made "to assure that no more than the actual cost of operation of the program is collected."

Recommendation

- (1) The Department should review charges for subdivision reviews and adjust them to prevent further accumulation of excess funds.
- (2) The Department should request that the 1979 Legislature reduce junk vehicle fees to comply with State law.

Internal Control Over Cash

Funds, generally in the form of checks, are handled by several persons in different locations throughout Helena. Problems exist with respect to control over these receipts.

- (1) Generally the persons receiving cash payments are responsible for depositing and recording these collections. In one location, this same person performs bank reconciliations for two of the Department's revolving bank accounts and is an authorized check signer on one of these accounts.

Good internal control requires that persons handling receipts not be responsible for recording these receipts, nor have access to the bank accounts, and that bank reconciliations be performed by persons with no other cash responsibilities.

- (2) Frequently checks are endorsed when deposited rather than when received. Immediate endorsement decreases susceptibility to misappropriation.

- (3) Safekeeping facilities generally consist of desks and standard filing cabinets. One such filing cabinet is usually not locked and available to many employees.
- (4) The Montana Operations Manual requires that deposits be made at least weekly or whenever cash receipts on hand accumulate to \$500. This is not always being done.

Recommendation

- (1) The Department should consider centralizing the collection of cash within the Department and reallocate duties to provide better internal control over cash receipts.
- (2) Checks should be endorsed immediately upon receipt.
- (3) Better facilities should be provided for the safekeeping of cash on hand.
- (4) The Department should comply with State deposit requirements.

Family Planning Grants

The Department grants funds to various family planning agencies throughout the state so that no-cost services may be provided to low income persons. These agencies also collect fees from clients who do not meet low income criteria. The family planning agencies located in Billings and Bozeman have substantial current fund balances resulting from an accumulation of excess revenues over program expenditures in the current and prior years. OMB Circular A-102 requires that:

- "5. All other program income earned during the grant period shall be retained by the grantee and, in accordance with the grant agreement, shall be:
 - (a) Added to funds committed to the project by the grantor and used to further eligible program objectives.
 - (b) Used to finance the non-federal share of the project when approved by the Federal Sponsoring Agency; or
 - (c) Deducted from the total project costs for the purpose of determining the net costs on which the Federal share of costs will be based" (Attachment E, OMB Circular A-102).

Recommendation

The Department should require the family planning agencies with excess funds to utilize them in accordance with federal guidelines.

Fixed Assets

The Department maintains a memorandum inventory record indicating \$1,556,977 in equipment as of June 30, 1978. This balance is not recorded in the Department's accounting records prepared through the Statewide Budgeting and Accounting System (SBAS), but is recognized with certain adjustments in the financial statements.

Our testing indicates that this record is unreliable as illustrated by the following comments:

- (1) A complete physical inventory has not been taken since fiscal year 1971.
- (2) Some property items have no assigned cost.
- (3) Numerous items do not indicate whether acquired with State or Federal funds or a combination thereof. This information is required not only to comply with provisions of the U.S. Office of Management and Budget (OMB) regulations regarding fixed asset accountability, but also to prepare financial statements in accordance with generally accepted accounting principles.
- (4) Several items, selected at random from the record, could not be located.
- (5) Excess or obsolete items of equipment have been transferred to the surplus property section of the Department of Administration, but in some cases have not been deleted from the property record.
- (6) A water sampler costing \$59.25 was recorded at \$40,059.25 and a dental chair costing \$510.00 was recorded at \$40,510.00.
- (7) Numerous items with a unit of cost of less than \$100 have been inventoried. Management Memo 70-17 indicates that these items need not be inventoried.

Recommendation

- (1) The Department of Health should consult with the Department of Administration to establish a system of general ledger control over its fixed assets.
- (2) The Department of Health should take a complete physical inventory, reconcile its property record, maintain its record on a current basis and delete items which need not be inventoried.

Payroll

The following problems were noted regarding payroll-related procedures.

- (1) The person with primary responsibility for payroll preparation is also responsible for distribution of paychecks and W-2's at year end. Good internal control requires that these latter functions be handled by

someone not responsible for payroll preparation.

- (2) Section 59-1001, RCM, 1947, prohibits employees from taking vacation leave until they have been employed for six months. In several instances the Department has allowed employees to take annual leave prior to the end of the required period.

Recommendation

- (1) Duties of payroll preparation and distribution should be assigned to different persons.
- (2) Employees should not be allowed to take annual leave until they have completed six months of employment.

Audit of Federal Grant Programs

Federal regulations (OMB Circular No. A-102) require that federal grants be audited "by qualified individuals who are sufficiently independent of those who authorize the expenditure of Federal funds, to produce unbiased opinions, conclusions, or judgements." Not every grant is intended to be audited, but an appropriate sample should be audited no less frequently than every two years. In addition, regulations for the U.S. Department of Agriculture's Women, Infants and Children (WIC) program require that sub-grantee agencies be audited.

With few exceptions federal programs have not been audited since fiscal year 1973. The Department has recently hired an internal auditor whose primary function is to audit these federal programs.

Recommendation

The Department should comply with federal grant management requirements regarding periodic audits.

Classification of Collections

The Montana Operations Manual requires that collections made by agencies of the State be treated as revenue unless they are abatements (refunds of amounts spent in error) or a recovery of amounts originally expended solely as a convenience to others and the amount collected is specifically related to the amount expended. During the current year laboratory services were provided to the Fish and Game Department. Amounts charged for these services were treated as abatements rather than as revenues. This procedure distorts expenditures and obviates appropriation limitations in that as expenditures are reduced, the amounts deposited are still available for expenditure.

Recommendation

The Department should classify all collections as revenues unless these

amounts represent abatements or recoveries as defined by the Montana Operations Manual.

Prior Year Revenues

The Department records receipts on federal grants in the year received rather than the year in which the grant funds are earned. Section 2-1400.10 of the Montana Operations Manual indicates that the State is on the modified accrual basis of accounting. Under this method of accounting revenues are generally not accrued. One exception is the accrual of funds receivable as reimbursements on federal grants. Accordingly some of the receipts recorded as revenues in the current year are actually prior year revenues. Accruals for revenues earned in fiscal year 1978 have been recognized in the financial statements. It was impractical to determine the beginning balance of receivables.

Recommendation

Receipts of federal grant monies should be recorded as revenue in the year earned.

WIC Program

WIC regulations require recertification of financial and nutritional need at six month intervals. Many families are not recertified at required intervals because they do not provide current financial information, or fail to bring their children for blood tests, etc. Regardless of this fact, the families are issued food drafts.

Recommendation

Food drafts should be issued only to properly certified recipients.

Grant Program Costs

Federal Management Circular 74-4, "Cost principles applicable to grants and contracts with State and local governments," indicates that use allowances (depreciation) may be charged to grants for buildings and equipment utilized in program support. They are allowable as direct and/or indirect costs. The Department does not charge depreciation to grants as a direct expense nor is consideration given to depreciation in arriving at administrative costs included for determining an indirect cost rate.

Recommendation

The Department should establish a policy regarding the depreciation calculation which could be included as a direct cost or a factor for determining an indirect cost rate.

Surplus Property

The prior audit report, covering fiscal year 1973, indicated that a piece of equipment had been stored, unused, in the hallway of the Cogswell Building for nearly thirty years. This piece of equipment is still being stored by the Department. Section 82-1914, RCM, 1947, specifies that the Department of Administration is to have control and disposition authority over unused or unneeded state property.

Recommendation

The Department should identify all unused or unneeded assets and transfer them to the Department of Administration.

Agreements with Local Agencies

The Department enters into agreements with local agencies for the conduct of some federal grant programs. These agreements, especially agreements under the WIC program, are sometimes amended or renewed verbally without a written memorandum being prepared. In order to avoid disagreements about these matters, all contract amendments should be supported by written documentation.

Recommendation

The Department should prepare written amendments to agreements or contracts.

Manual Accounting Records

Because of the number of federal grants received by the Department and the difference between the State and federal fiscal years, a substantial amount of manual accounting is performed to facilitate reporting of expenditures for grant programs. The Department has been keeping manual records to account for cash by individual grant award while SBAS has the capability of accumulating this data. It is our understanding that the Department now utilizes SBAS for this purpose.

Many of the continuing grants received by the Department require reports covering periods which do not coincide with the State's fiscal year. This requires that transactions near the end of the grant period be identified as belonging to the grant period just ended or the subsequent grant period. Usually these transactions are recorded in one account and are analyzed when the grant report is prepared. Separate accounts for each grant period would obviate the need to analyze several months' transactions. The expenditures would be charged to the proper grant when they are initially recorded.

Recommendation

The Department should use SBAS to the maximum extent possible to simplify and minimize grant accounting.

Office Leases

The Department leases nine offices in Helena and around the state. Copies of leases for two of these offices could not be located.

Recommendation

Copies of all leases should be maintained in the Department's Central Services Division.

Prior Audit Findings

We have reviewed the audit findings and recommendations contained in the audit report for the year ended June 30, 1973. Except for the following comments, the Department appears to have complied with all recommendations.

Recommendation: We recommend that the department classify and deposit all collections as revenue except those amounts collected as abatements, as defined by the Montana Administrative Manual.

Finding: Although the number of such transactions has decreased, revenues still continue to be credited to expense accounts. See discussion on page 8.

Recommendation: We recommend that the department establish a centralized cashier function within the Centralized Services Division incorporating the requirements of the Montana Administrative Manual.

Finding: A centralized cashier function has not been established. See discussion on page 5.

Recommendation: We recommend that the department establish centralized billing and recording procedures for department receivables within the Centralized Services Division.

Finding: No centralized billing function has been established within the Department. Individual bureaus are still directly responsible for billing for services when appropriate.

Recommendation: We recommend that the department refrain from advancement of employee vacation and sick leave prior to completion of the statutory time periods.

Finding: Vacation leave continues to be advanced. See discussion on page 8.

Recommendation: We recommend that the department establish an effective program of determination of ability to pay for services provided under the Heart Diagnostic program.

Finding: The Department provides this service at no charge to patients. Only third party payors, Medicaid or insurance companies, for example, are billed for services.

Recommendation: We recommend that the department re-bill and follow up on all billings for services provided under the Heart Diagnostic program.

Finding: The Department does not follow up on billings made to third party payors. If a bill is not paid, it is not pursued.

Recommendation: We recommend that:

(1) The department take a physical inventory of its fixed assets, reconcile the physical count with the existing records, adjust the records to agree with the physical count upon approval of the director of any writeoffs for missing items, record future additions and deletions on a timely basis, and implement the other provisions of Management Memo 70-17.

(2) The Department of Administration:

(a) Prescribe definitive procedures for agencies to follow in the management, recording, and reporting of fixed assets.

(b) Modify SBAS as soon as practicable to account for and report fixed assets balances for state agencies.

Finding: (1) A complete physical inventory has not been taken, nor are records reconciled with physical counts.

(2) SBAS does not provide for the recording of fixed assets.

See discussion on page 7.

Recommendation: We recommend that the department identify all unused or unneeded assets and notify the Department of Administration.

Finding: Some equipment is still unused and stored by the Department. See discussion on page 10.

Final Comments

We have reviewed the comments and recommendations contained in this report with the Director and other officials of the Department of Health and Environmental Sciences.

We wish to express our appreciation to those officials and the staff of the Department of Health and Environmental Sciences for the cooperation and assistance we received from them during our audit.

September 8, 1978

Joak & Vandewater

FINANCIAL STATEMENTS

DEPARTMENT OF HEALTH AND ENVIRONMENTAL SCIENCES
Balance Sheet
 June 30, 1978

	<u>General Fund</u>	<u>Earmarked Revenue Fund</u>
<u>ASSETS</u>		
Cash	\$ 3,633	\$2,119,572
Investments		16,213
Receivables:		
Federal grants		
Accounts receivable	591	2,363
Department of Natural Resources		
Prepaid expenses and expense advances	10	87,353
Encumbered appropriations	117,980	
Building		
Equipment		
Total assets	<u>122,214</u>	<u>2,225,501</u>
<u>LIABILITIES, RESERVES AND FUND BALANCE</u>		
Liabilities:		
Overdraft		
Accounts payable and accrued liabilities	<u>117,980</u>	<u>121,231</u>
Total liabilities	<u>117,980</u>	<u>121,231</u>
Reserve For:		
Revolving cash fund	3,000	
Undeposited cash	633	
Accounts receivable	591	
Prepayments	10	
Total reserves	<u>4,234</u>	
Investment in general fixed assets		
Fund balance (deficit)	<u>-0-</u>	<u>2,104,270</u>
Total liabilities, reserves and fund balance	<u>122,214</u>	<u>2,225,501</u>

See Notes to Financial Statements.

<u>Federal and Private Revenue Fund</u>	<u>Federal and Private Grant Clearance Fund</u>	<u>Bond Proceeds and Insurance Clearance Fund</u>	<u>General Fixed Assets</u>
\$ 208,479	\$ 13,861		
886,705			
12,742		\$ 134,740	
5,638			
			\$ 50,000
			<u>1,476,977</u>
<u>1,113,564</u>	<u>13,861</u>	<u>134,740</u>	<u>1,526,977</u>
		134,740	
<u>906,220</u>	<u>44,035</u>	<u>134,740</u>	
<u>906,220</u>	<u>44,035</u>	<u>134,740</u>	
			1,526,977
<u>207,344</u>	<u>(30,174)</u>	<u>-0-</u>	
<u>1,113,564</u>	<u>13,861</u>	<u>134,740</u>	<u>1,526,977</u>

See Notes to Financial Statements.

DEPARTMENT OF HEALTH AND ENVIRONMENTAL SCIENCES
Statement of Revenues
For the Year Ended June 30, 1978

	<u>General Fund</u>	<u>Earmarked Revenue Fund</u>
General fund appropriations	\$2,362,259	
Licenses	157,533	\$ 21,690
Fees	29,725	504,724
Sales of property and other items	100	93,659
Fines	77,600	
Junk vehicle fees		582,579
Grants from State agencies		535,000
Federal Grants:		
Construction		
Other		
Grants from other agencies		
	<hr/>	<hr/>
Total revenues	<u><u>2,627,217</u></u>	<u><u>1,737,652</u></u>

See Notes to Financial Statements.

<u>Federal and Private Revenue Fund</u>	<u>Federal and Private Grant Clearance Fund</u>	<u>Bond Proceeds and Insurance Clearance Fund</u>	<u>Total</u>
			\$ 2,362,259
			179,223
\$ 36,258			570,707
			93,759
			77,600
			582,579
332,925		134,740	1,002,665
	\$ 874,471		874,471
9,090,670	100,000		9,190,670
<u>259,909</u>	<u> </u>	<u> </u>	<u>259,909</u>
<u>9,719,762</u>	<u>974,471</u>	<u>134,740</u>	<u>15,193,842</u>

See Notes to Financial Statements.

DEPARTMENT OF HEALTH AND ENVIRONMENTAL SCIENCES

Statement of Expenditures by Fund

For the Year Ended June 30, 1978

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
<u>General Fund</u>			
Health Planning and Resource Development	\$ 131,580	\$ 131,458	\$ (122)
Management Services	401,956	401,904	(52)
Communicable Disease Control	128,255	122,564	(5,691)
Hospital and Medical Facilities	227,035	213,531	(13,504)
Environmental Sciences	1,125,772	1,038,768	(87,004)
Water Pollution Control Construction	181,259*	17,640	N/A
Health Services	<u>737,578</u>	<u>701,352</u>	(36,226)
Total	<u>2,933,435</u>	<u>2,627,217</u>	
<u>Earmarked Revenue Fund</u>			
Environmental Sciences	1,776,033	1,311,092	(464,941)
Water and Waste Water Operators	<u>12,339</u>	<u>12,120</u>	(219)
Total	<u>1,788,372</u>	<u>1,323,212</u>	
<u>Federal and Private Revenue Fund</u>			
Health Planning and Resource Development	272,600	238,981	(33,619)
Management Services	377,299	342,990	(34,309)
Communicable Disease Control	309,542	278,890	(30,652)
Hospital and Medical Facilities	1,151,647	967,450	(184,197)
Environmental Sciences	2,065,598	1,814,444	(251,154)
Health Services	<u>9,308,619</u>	<u>6,106,834</u>	(3,201,785)
Total	<u>13,485,305</u>	<u>9,749,589</u>	

* This is the July 1, 1977 balance of continuing appropriation #12259.

N/A - Not applicable

See Notes to Financial Statements.

DEPARTMENT OF HEALTH AND ENVIRONMENTAL SCIENCES
Statement of Expenditures by Fund - continued
For the Year Ended June 30, 1978

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
<u>Federal and Private Grant Clearance Fund</u>			
Health Planning and Resource			
Development	\$ 1,000,000	\$ 874,471	\$ (125,529)
Management Services	<u>125,350</u>	<u>123,653</u>	(1,697)
Total	<u>1,125,350</u>	<u>998,124</u>	
 <u>Bond Proceeds and Insurance Clearance Fund</u>			
Environmental Sciences	<u>200,000</u>	<u>134,740</u>	(65,260)

See Notes to Financial Statements.

DEPARTMENT OF HEALTH AND ENVIRONMENTAL SCIENCES
Statement of Expenditures by Object
For the Year Ended June 30, 1978

	Health Planning and Resource Development	Management Services	Communicable Disease Control
Personal Services:			
Salaries	\$ 192,348	\$ 492,884	\$ 238,072
Benefits	<u>26,633</u>	<u>65,228</u>	<u>34,541</u>
Total personal services	<u>218,981</u>	<u>558,112</u>	<u>272,613</u>
Operating Expenses:			
Contracted services	99,322	21,282	12,388
Supplies and materials	2,477	6,829	22,191
Communications	5,886	16,685	18,630
Travel	21,575	9,897	24,622
Rent	14,104	88,062	9,248
Utilities	1,483		445
Repairs and maintenance	413	4,899	951
Other expenses	<u>2,321</u>	<u>7,474</u>	<u>2,883</u>
Total operating expenses	<u>147,581</u>	<u>155,128</u>	<u>91,358</u>
Equipment	<u>3,876</u>	<u>8,765</u>	<u>6,783</u>
Grants to Other State Agencies, Local Governments and Other Health-related Organizations	<u>874,472</u>	<u>146,542</u>	<u>30,700</u>
Total	<u>1,244,910</u>	<u>868,547</u>	<u>401,454</u>

See Notes to Financial Statements.

<u>Hospital and Medical Facilities</u>	<u>Environmental Sciences</u>	<u>Water Pollution Control Construction</u>	<u>Water and Waste Water Operators</u>	<u>Health Services</u>	<u>Total</u>
\$ 464,231	\$1,649,606		\$ 6,259	\$ 893,246	\$ 3,936,646
65,081	230,527		941	121,524	544,475
<u>529,312</u>	<u>1,880,133</u>		<u>7,200</u>	<u>1,014,770</u>	<u>4,481,121</u>
109,143	696,603		1,387	1,301,773	2,241,898
9,407	101,420		224	2,471,484	2,614,032
22,356	65,391		699	35,182	164,829
58,244	134,556		1,427	55,740	306,061
27,408	72,890		601	82,526	294,839
2,904	17,041				21,873
3,151	31,540		60	4,095	45,109
2,925	16,954		452	5,820	38,829
<u>235,538</u>	<u>1,136,395</u>		<u>4,850</u>	<u>3,956,620</u>	<u>5,727,470</u>
<u>13,661</u>	<u>359,558</u>		<u>70</u>	<u>29,500</u>	<u>422,213</u>
<u>402,470</u>	<u>922,958</u>	<u>\$ 17,640</u>		<u>1,807,296</u>	<u>4,202,078</u>
<u>1,180,981</u>	<u>4,299,044</u>	<u>17,640</u>	<u>12,120</u>	<u>6,808,186</u>	<u>14,832,882</u>

See Notes to Financial Statements.

DEPARTMENT OF HEALTH AND ENVIRONMENTAL SCIENCES
Statement of Changes in Fund Balance
 For the Year Ended June 30, 1978

	<u>General Fund</u>	<u>Earmarked Revenue Fund</u>
Fund balance, July 1, 1977	\$ -0-	\$1,683,387
Increases:		
Revenues	2,627,217	1,737,652
Prior year reimbursements		6,443
Prior year appropriations	4,718	
Total increases	<u>2,631,935</u>	<u>1,744,095</u>
Beginning balances and increases	<u>2,631,935</u>	<u>3,427,482</u>
Decreases:		
Current expenditures	2,627,217	1,323,212
Prior year adjustments	4,718	
Total decreases	<u>2,631,935</u>	<u>1,323,212</u>
Fund balance, June 30, 1978	<u>-0-</u>	<u>2,104,270</u>

See Notes to Financial Statements.

Federal and Private Revenue Fund	Federal and Private Grant Clearance Fund	Bond Proceeds and Insurance Clearance Fund
\$ 316,842	\$ (5,829)	\$ -0-
9,719,762	974,471	134,740
2,636		
<u>9,722,398</u>	<u>974,471</u>	<u>134,740</u>
<u>10,039,240</u>	<u>968,642</u>	<u>134,740</u>
9,749,589	998,124	134,740
82,307	692	
<u>9,831,896</u>	<u>998,816</u>	<u>134,740</u>
<u>207,344</u>	<u>(30,174)</u>	<u>-0-</u>

See Notes to Financial Statements.

DEPARTMENT OF HEALTH AND ENVIRONMENTAL SCIENCES
Notes to Financial Statements
June 30, 1978

Note 1 - Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Department of Health and Environmental Sciences have been prepared using the modified accrual basis of accounting. Under this method of accounting expenses are recorded when they are incurred and revenues are recorded when received unless they are susceptible to accrual. Revenues are considered susceptible to accrual if they are both measurable and available. Generally grant funds are considered earned when expenditures are incurred under the provisions of the grant.

Fund Accounting

In order to insure observance of limitations and restrictions placed on the resources available to the Department, the accounts are maintained in accordance with "Fund Accounting." This is the process by which resources for various purposes are classified for accounting and reporting purposes into accounting entities with a self-balancing set of accounts that are in accordance with activities or objectives specified in special regulations or legislation. Five such funds are used by the Department.

- (1) General Fund to account for expenditures of State appropriated monies.
- (2) Earmarked Revenue Fund to account for receipts and expenditures of programs specified by legislation (Note 2).
- (3) Federal and Private Revenue Fund to account for receipts and expenditures of grants from various agencies and fees charged for grant financed services.
- (4) Federal and Private Grant Clearance Fund to account for grants made to various governmental and non-governmental agencies over which the Department has supervisory responsibility.
- (5) Bond Proceeds and Insurance Clearance Fund to account for receipts and expenditures of coal tax revenues received from the Department of Natural Resources (Note 3).

Investments

Investments are stated at cost. At June 30, 1978 market value of the investments approximates cost.

Inventories and Supplies

All purchases of office, clinical, laboratory and other supplies are charged directly to expense accounts. Food distributed under the United States Department

DEPARTMENT OF HEALTH AND ENVIRONMENTAL SCIENCES
Notes to Financial Statements - continued
June 30, 1978

of Agriculture Women, Infants, and Children program constitutes a significant portion of supplies expenditures in the accompanying statements.

Fixed Assets

General fixed asset purchases are recorded as expenditures in the fund financing the purchase. These purchases are subsequently capitalized in the General Fixed Asset Group of Accounts. No depreciation has been provided on general fixed assets.

Note 2 - Earmarked Revenue Fund

The Earmarked Revenue Fund is composed of seven groups of accounts for the following purposes specified by legislation:

- Environmental Quality Variance Review Fees
- Subdivision and Plat Review Fees
- Environmental Impact Statement Fees
- Health Effects Study
- Junk Vehicle Disposal Fees
- Board of Certification Fees for Water and Waste Water Operators
- Fees for Testing Public Water Supplies

Note 3 - Bond Clearance and Insurance Proceeds Fund

During the year ended June 30, 1978, the Department entered into an agreement with the Department of Natural Resources to provide a statewide solid waste management project during the next six years. At June 30, 1978, no funds had been received. Revenues were accrued in an amount equal to the expenditures through June 30, 1978.

Note 4 - Litigation

Fines totalling \$535,000 have been imposed against several entities for violations of Montana air and water pollution standards. These fines are in various stages of litigation and actual amounts collectible cannot presently be determined.

AGENCY REPLIES



October 25, 1978

JANKE AND VAN DELINDER
Certified Public Accountants
720 North 30th Street
Billings, Montana 59101

This is to provide comments or concurrences to citations in the recently completed report of audit of this agency's Fiscal 1978 business transactions.

Earmarked Revenue Accounts - Excess Cash Balances

(1) We concur in this recommendation and will work toward alignment of fee receipts and necessary program expenditures. Fiscal 1978 was the first year of operation under increased fee schedules for subdivision reviews. It was also the first year of contracting with local health personnel for a considerable portion of the subdivision review process. The Subdivision Bureau had considerable turnover in personnel and fell behind adequate scheduling of the subdivision review process.

During Fiscal 1979, the Office of Budget and Program Planning has been asked to approve a budget amendment to employ two new persons to assist with the subdivision review program. The number of projects submitted for review continues to increase, so that it is difficult to conduct reviews on an adequate schedule without additional personnel.

(2) Information will be given to the 1979 session of the Legislature to apprise them of the current fund balances in the Junk Vehicle Disposal Fund. The balance has remained at a relatively high level because of the delay in implementation of planned projects for disposal. It was planned to develop a program for the shredding of old automobile tires

(2)

for disposal. It was found that it was not yet economically feasible to enter into the project.

In addition, the economic situation has kept a relatively high value on scrap material and there has been no cost to the Department to have junk automobiles compressed and transported to reprocessing sites.

It is believed that it is important to maintain a considerable balance in this fund since the fees on which it is based are now very low. If they were to be lowered further and the fund reduced to near zero, it would be difficult to raise the fees later to provide funding for needed resource recovery projects.

Internal Control Over Cash

(1) We concur that it is desirable to centralize the collection of cash within the department in order to establish better control. It is difficult to do this, however, because of the fact that the Department is situated in seven different buildings in Helena. There seems to be less risk in having the Bureaus which collect the various fees make direct deposits than to transmit the funds between buildings in order to effect the central function. It is expected that this problem can be overcome within the next biennium when an additional structure is added to the Cogswell Building so that the department headquarters may be in one location for all bureaus.

(2) We concur that checks should be endorsed immediately upon receipt and have taken measures to ensure that it will be done from this date forward.

(3) Instructions have been provided to collection personnel to ensure that all cash receipts are kept in secure, locked enclosures. These

(3)

repositories vary from locked desks and file cabinets to office safes.

(4) We concur with the recommendation and will comply with the Department of Administration deposit requirements. Deposits will be made on the recommended schedules so that excess quantities of cash and checks are not kept on hand.

Family Planning Grants

(1) We concur with the recommendation. Program managers will work with the family planning delegate agencies to instruct them to utilize the major portion of their fee receipts each year. They will be allowed to maintain a recommended balance to be used in case of program contingencies.

Fixed Assets

(1) We will cooperate with the Department of Administration in establishing a system to provide an adequate ledger control over fixed assets.

(2) It is agreed that the Department should conduct complete physical inventories on a periodic basis, but this has not been possible because we have not had sufficient personnel to assign to the project. We maintain records of acquisitions to the fixed asset inventory and of deletions from it. In addition, transfer of property between bureaus is covered by memorandum in order to maintain location control. It is difficult, however, to maintain central control over assets which may be moved about the State, as is done in the Air Quality Bureau's program.

The operating bureaus have been requested approximately every two years to make a physical count of fixed assets and to report any unrecorded acquisitions and to make deletions for obsolete and worn-out equipment.

(4)

The property control operation will be improved as resources can be devoted to it.

Payroll

(1) We concur that the duties relative to payroll preparation and distribution should be assigned to different persons. We have made the change to be effective immediately.

(2) We concur with this recommendation. The practice was discontinued in January, 1978, when the Department of Administration promulgated regulations which contain prohibition of the advancement of vacation leave.

Audit of Federal Grant Programs

(1) An additional internal auditor was recently employed to have primary duties for the audit of operations of delegate or subgrantee local projects. He will also be given responsibility for the audit of other federally supported projects on a selected basis as work schedules allow.

Classification of Collections

(1) To follow the recommendation where two state agencies are involved would, in effect, result in showing a duplication of revenue and income items and a duplication of state expenditures. It seems preferable to abate expenditures in the receiving agency so that the duplication is negated. The amounts of expenditures in these cases are minimal and the situations leading to the transfer of funds are usually those in

(5)

which one agency attempts to cooperate with another to accomplish it's business at the least possible cost.

It is not always practical for the first agency to employ people to perform a service or carry out a project and is much more economical to make payment to the second state agency whose personnel may be involved in the type of work that is desired.

Prior Year Revenues

(1) There is a difference of opinion between state officials and the auditors regarding the recording of revenue and income items. It appears to be preferable to record amounts of income in the year in which they are received. To make accruals for expected or estimated future income gives rise to excessive adjusting entries and may, in effect, distort the financial transactions.

The federal agencies allow ninety days after the close of a project year, so that costs may be properly gathered for reports on which payment is based.

WIC Program

(1) We concur with the recommendation that food drafts should be issued only to properly certified recipients. It has been indicated that recertification problems have existed in only a few of the local agencies. The program manager will work with the local delegate agencies to improve the recertification process.

Grant Program Costs

(1) Equipment is charged to projects and programs directly at the time

(6)

of purchase. This is the most practical procedure because many projects are short-lived. The cost of depreciation of buildings is entered into the indirect cost rate through the expenditure information provided to the Department of Health, Education and Welfare by the State Office of Budget and Program Planning. It amounts to 2% of acquisition cost per year and is included in the prorata plan of charges against the operating state agencies. The indirect costs approved for O.B.P.P. are added to those approved for the Department to construct a composite rate for indirect charges against federally supported projects.

Excess Property

(1) We concur with the recommendation and have previously established a program for disposal of unneeded assets and obsolete equipment through the Surplus Property Division of the Department of Administration. The piece of equipment cited by the auditors has been listed as available for transfer to other state agencies or to be disposed of otherwise. We have tried for several years to find an agency or firm which could utilize this equipment, but have not been successful.

Agreements with Local Agencies

(1) We concur with the recommendation that amendments to agreements and contracts should be in writing. All contracts for services are routinely encumbered and payments against the contracts are not made unless changes to the contracts are made in writing.

Manual Accounting Records


(1) We agree that the state budgeting and accounting system should be

(7)

used to provide the maximum information and financial operation efficiency. We began a process in the last biennium to separate costs accruing in more than one project fiscal year in order to simplify reporting. With the institution of the upgraded SBAS on July 1, 1978, it should prove to be easier to separate costs of two project years which do not terminate on June 30. This process can be upgraded for maximum efficiency as soon as the problems in the new SBAS are overcome.

Office Leases

(1) Copies of all lease agreements which are in effect are maintained in the Central Services files. In some cases, the projects are of short duration and it is not desirable to lease on a long-term basis. In those cases, office space is rented on a month-to-month basis.



ROBERT A. JAMES
Deputy Director
Department of Health
and Environmental Sciences

